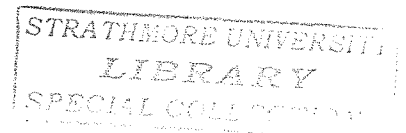


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CONTRIBUTION OF FOREIGN DIRECT INVESTMENT TO JOB CREATION AND
SKILLS DEVELOPMENT IN SELECTED MULTI-NATIONAL COMPANIES IN
KENYA

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BY
MWANGI ROY NYAGA



Submitted
in partial fulfillment of the requirements for the Degree of Master of Commerce at
Strathmore University

School of Management and Commerce
Strathmore University
Nairobi, Kenya

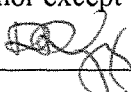
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DECLARATION

I declare that this thesis is my original work and has not been presented and approved for the award of any degree by this or any other University. To the best of my knowledge and belief, this thesis contains no material previously written or published by another author except where due reference is made in the thesis itself.


Mwangi R Nyaga

18/12/2014

Date

Approval

This thesis of Mwangi Roy Nyaga was reviewed and approved by the following:

Dr. David Wang'ombe,

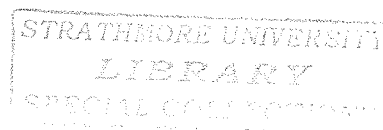
Dean, School of Management and Commerce,
Strathmore University

Dr. David Wang'ombe,

Dean, School of Management and Commerce,
Strathmore University

Prof. Ruth Kiraka,

Dean, School of Graduate studies,
Strathmore University



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ABSTRACT

The purpose of this study was to determine the contribution of Foreign Direct Investment (FDI) to skills development and job creation in selected multi-national companies in Kenya. The study further investigated the challenges faced in promoting FDI. The study was carried out in Multinational Companies guided by the United Nations Conference for Trade and Development investment guide report 2012 in Nairobi County using both inferential and descriptive survey research design approaches to achieve its objectives. To establish whether there is a significant relationship between FDI and job creation, correlation analysis was done for macro-economic data on FDI inflows against the data on the number of jobs created in the economy of Kenya since 1980. This was further supported by a descriptive survey at the micro economic level to get the specific information from the Multi-national companies within the scope of study. According to the findings, and contrary to the internalisation theory, the study concludes that there is a significant relationship between FDI and job creation and that Multi Nationals operating in Kenya contribute to skills development and job creation. The study also highlights that more needs to be done by the Kenya government through policy improvement and review to foster and retain FDI from the Multi-Nationals.

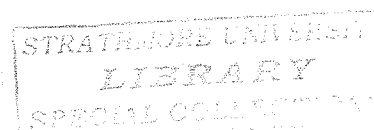


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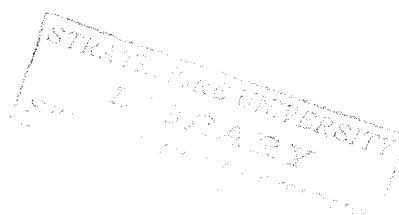
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ABBREVIATIONS AND ACRONYMS

FDI	Foreign Direct Investment
MNCs	Multinational Companies
SAPS	Structural Adjustments Programs
SPSS	Statistical Package for Social Sciences
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
UNCTAD	United Nations Conference for Trade and Development
VECM	Vector Error Correction Model



CHAPTER 1: INTRODUCTION

1.1: Background of the study

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country Falzoni (2000). Broadly, foreign direct investment includes mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans Lipsey (2001). Therefore for this study, foreign direct investment refers to building new facilities.

The IMF and OECD definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The “lasting interest” implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter Falzoni (2000).

Direct investment involves both the initial transaction establishing the relationship between the investor and the enterprise and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. According to economic theory, the three principal contributions of FDI to a host country are: the financial capital invested by foreign firms; the export market access provided by them; and the faster technology development that is expected to occur through technology transfer as part of the FDI package. Each of these is believed to help the host country to achieve faster industrial catching-up than is feasible otherwise and thus contribute to the host country's economic growth and development.

The first two aspects are usually examined by analyzing: the shares of FDI in total external capital inflows into a host economy and gross domestic capital formation; the extent and pattern of foreign ownership in various sectors in terms of the industrial composition of FDI inflows and sources of FDI; and the export-orientation of foreign-invested firms (Faeth, 2008).

Foreign direct inflows to Kenya have increased significantly since the 1980's as per the Economic Surveys from 1980 to 2014. Among developing countries, the distribution of FDI inflows has been uneven. With the aim of boosting economic growth, many developing countries have established investment promotion institutions and have introduced policies to induce more FDI injections. Even though such policies can be effective in attracting foreign investment, the potential benefit that FDI can bring to host countries could be limited (Amirahmadi & Wu, 1994).

The contribution of foreign direct investment (FDI) on economic growth has been widely researched and different conclusions have been reached by a number of researchers (Fedderke & Romm, 2006; Crespo & Fontoura, 2007; Beugelsdijk, Smeets & Zwinkels, 2008; Hamida & Gugler, 2009).

This topic has attracted a lot of research attention because of the contribution FDI is believed to have on economic growth. Some of the benefits noted by Kinda (2010) are beneficial effects on financial resources, technology, skills, access to export markets and employment. This is consistent with Reiter & Steensma (2005) who note that FDI is regarded not only as an important source of foreign funding but also as a conduit for improving productivity, increasing international competitiveness and increasing access to export markets which significantly contribute to sustainable growth and better standards of living. Further benefits cited by Mwilima (2003) are job creation and skills development or skills transfer and therefore this is the main motivation for attracting FDI by governments in developing countries.

Foreign direct investment has been recognized for the increase in tax revenues and improved management, technology, as well as labour skills in host countries (Todaro & Smith, 2003, Hayami, 2001). Additionally, FDI may help the host country to break out of the vicious cycle of underdevelopment and unemployment (Hayami, 2001). Despite some of the evidence presented in recent studies (Addison & Heshmati, 2003; Rodrik, 1999; Aitken & Harrison, 1999), there are several theoretical arguments why developing countries like Kenya may not gain from FDI.

Krugman (1998) debates that the transfer of control from domestic to foreign firms may not always be beneficial to the host countries because of the adverse selection problem.

FDI undertaken within a crisis situation under “Fire Sale” may transfer ownership of firms from domestic to foreign firms that are less efficient (Agosin & Mayer, 2000). This concern is particularly important to the developing countries including the African countries, where, as part of privatization, state owned enterprises are sold to foreign firms simply because foreign firms have more available funds than domestic ones. As pointed out by Saltz (1992), Agosin & Mayer (2000), FDI may also “crowd out” domestic firms through unfair competition. There is also a concern that due to the business nature of most foreign owned firms and their full non engagement to the host economy could reduce the potential spillover contribution to the national economy. This can also be underscored by the lean personnel operational strategies of multinational companies resident in host countries to go to great lengths to reduce workforce so to maximise on their profit margins.

Attracting FDI for Kenya has been a key aspect of its outward-oriented development strategy, as investment is considered a crucial element for output growth and employment generation (Kayonga, 2008). As illustrated by the World Development Report in 2000 and subsequent years, the Net debt flows have become less significant while portfolio flows have become firmly established. Foreign direct investment has come to boost other financial flows that contribute greatly to a country’s economy.

Over a long period of time FDI creates many externalities in the form of benefits available to the whole economy which the host countries cannot appropriate as part of their own income. These include transfers of general knowledge and of specific technologies in production and distribution, industrial upgrading, work experience for the labour force, the introduction of modern management and accounting methods, the establishment of finance-related and trading networks, and the upgrading of telecommunications services (Antwi, Mills, Mills, & Zhao, 2013).

Mwilima (2003) notes that two of the five main reasons governments in Africa want to attract FDI are that first, FDI will result in job creation and, second, FDI will lead to the transfer of skills to local managers. Dinga & Munich (2010) point out that few studies have focused on the contribution of FDI to the host economy’s labour market.

Recent studies focusing on South Africa have focused on the growth contribution and determinants of FDI in general (Fedderke & Romm, 2006; Rusike 2007).

The role of foreign direct investments in promoting economic growth has been the subject of much debate among development specialists, researchers, aid donors as well as recipients in general and Kenya in particular.

It is widely believed that, given the appropriate host-country policies and a basic level of development, benefits that might accrue from FDI include job creation, the acquisition of new technology and knowledge, human capital development through employee training in new business ventures, contribution to international trade integration, creation of a more competitive business environment and enhanced local/domestic enterprise development, flows of ideas and global best practice standards aiding international competitiveness and increased tax revenues from corporate profits generated by FDI. (Tambunan, 2002)

All of these forms of benefits are expected thus to contribute to higher economic and employment growth, which is the most important/effective tool for achieving improvements in human well-being or alleviating poverty in developing countries. Unfortunately, empirical evidence regarding what contribution FDI has had on skill development and job creation in developing countries is limited. However, there is general consensus that FDI is no panacea, but, it can have a positive contribution on poverty reduction in developing countries (through a variety of ways as mentioned above), provided that mechanisms are in place in the host country to have these positive effects. In other words, the Contribution of FDI to poverty and other social goals of development depend principally on many factors, such as host country policies and institutions, the quality of investment, the nature of the regulatory framework, the flexibility of the labour market, and many others (Mayne, 1997).

According to McGrath and Akoojee (2007), skills growth and development are critical for industrial development and global competitiveness which Kenya, as a developing country, requires to achieve vision 2030. Kingdom and Knight (2004) notes that such a high unemployment rate has serious consequences for the Kenyan economy in terms of economic welfare, erosion of human capital, crime and social instability.

The high level of unemployment has been attributed to the significant earnings gap between the formal sector and the relatively small informal sector. The focus of this research is to investigate the contribution of FDI to skills development and job creation in selected multi-national companies in Kenya

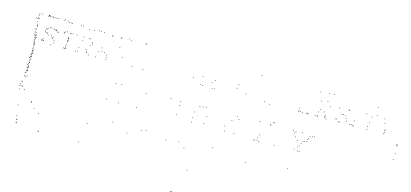
1.2: Statement of the Problem

Studies carried out in Kenya spanning from 2005 to 2008 have shown the level of FDI to Kenya to be low, both in absolute and relative terms. Lemi, (2005); Kurui, (2008); Wanjala, (2001); Kayonga, (2008). Kenya has however managed to turn around from declining economic performance to be a trend setter in terms of business in the East Africa region despite these poor FDI inflows (FKE, 2002). Kenya has retained regional advantages in FDI location. Foreign investors in Kenya have opted to make relatively small investments but they are numerous and established across a wide variety of sectors.

These studies have not focused on contribution of FDI to skill development and job creation. According to Kurui (2008), Chinese companies have made a contribution to the economy of Kenya but underscores that more research needs to be done on a greater scope of investors from different parts of the globe doing business in Kenya as stipulated in the Investment guide of Kenya 2012 from the United Nations Conference for Trade and Development. Other scholars have researched on the greater regional implications without looking at the specific Kenyan economy (Kayonga, 2008 and Kurui, 2008). More research has been done on determinants of FDI (Wanjala, 2001) and the contribution of local private investment to Kenya (King'ang'i, 2003). This study investigates the Contribution of foreign direct investment to skills development and job creation in selected multi-national companies in Kenya.

1.3: Purpose of the Study

The purpose of this study was to determine the contribution of foreign direct investment to skills development and job creation in Kenya.



1.4: Objectives of the Study

This study was guided by the following objectives:

- i. To establish whether there is a significant relationship between FDI and job creation in Kenya.
- ii. To determine the contribution of FDI to job creation and skills development in selected multi-national companies in Kenya.
- iii. To establish the challenges faced by multi-national companies in creating jobs and developing skills in Kenya.

1.5: Research Questions

This study sought to answer the following research questions:

- i. What is the relationship between FDI and job creation in Kenya?
- ii. To what extent has FDI by multi-national companies contributed to job creation and skills development in Kenya?
- iii. What are the challenges faced by multi-national companies in creating jobs and developing skills?

1.6: Significance of the Study

This study was useful to various groups as discussed below.

The relationship between FDI and job creation will be able to guide the Kenyan government in terms of how much emphasis it will be store to attracting FDI from Multinationals so as to boost the maximum benefit resulting from the jobs to be created.

The MNC's will be able to assess and bench mark their return on investments from training programs they undertake with the aim of sustaining competitiveness in the Kenyan economy.

To the government, through the findings of the challenges that MNC's face in terms of creating jobs and developing skills may be able to review its policies governing FDI to optimize the benefits resulting from the MNC's that invest in Kenya.

CHAPTER 2: LITERATURE REVIEW

2.1: Introduction

This chapter presents a review of literature related to the study. The chapter covers the literature on FDI theories, Importance of foreign direct investment, contribution of foreign direct investment to skills development, role of foreign direct investment in job creation, challenges faced in promoting FDI in Kenya and strategies for promote FDI in Kenya.

2.2: Theoretical Background

FDI theories were initially developed in the early 1960s in an attempt to explain how the determinants of FDI influence the flow of capital from one country to another country (Faeth, 2008). According to Faeth, Robinson in 1961 and Berham in 1962 were early contributors to FDI theory. Several theories on FDI have since been developed but for this study the main focus will be on the four theories that the most significance to the study.

2.2.1: Neoclassical Trade Theory

According to Faeth (2008), early FDI theory was based on the neoclassical trade theory that viewed FDI as international capital that would be invested in countries where firms would expect to earn higher returns. The main reason for the difference in capital returns in different countries is due to different factor endowments that result in an international factor pricing differential. This is supported by the market disequilibrium hypothesis. In some instances, disequilibrium in labour factor prices can result in FDI to flow from countries with high labour costs to countries with low labour costs until equilibrium is achieved in the labour markets (Rusike, 2007). In this case low labour costs become an important determinant of FDI.

2.2.2: Imperfect Markets Theory

A firm's decision to invest abroad is influenced by the potential to make profit due to specific advantages it has over domestic firms. According to Faeth (2008) the imperfect market theory was developed in 1960 by Hymer and developed further by

Kindleberger in 1969 in response to the neoclassical trade theory which was criticized as being inadequate to explain the flow of FDI due to its assumption of perfect competition. According to the imperfect market theory, FDI is influenced by ownership advantages. These could include superior technology, management expertise and product differentiation. These ownership advantages give foreign firms an advantage when competing with firms in the domestic economy (Faeth, 2008).

This is consistent with Reiter and Steensma's (2010) argument that imperfect markets are the main reason MNCs undertake FDI. Toyota of Japan's entry into the North American market could have been influenced by the company's perceived advantage of management expertise over North America car manufacturing companies. The ability to transfer skills and superior technology is critical to an MNC's decision to undertake FDI as this gives it a competitive edge over local companies. On the basis of this theory the current study seeks to determine the contribution of foreign direct investment to skills development in Kenya.

2.2.3: The Internalization Theory

This theory, developed by Buckely and Casson in 1976, is based on the premise that because markets are imperfect MNCs can be more efficient by internalizing their operations (Kalfadellis & Gray, 2002).

MNCs are exposed to imperfect intermediate markets, factors of production, services, technology and marketing techniques which, in turn, make the cost of transferring information, bargaining and enforcement significantly high (Faeth, 2008). This drives MNCs to replace imperfect market transactions with internal transactions (Moosa, 2002). Due to having more efficient processes of transferring information, it is more economical for an MNC to expand into another country and produce in that market than to export or import. Being efficient in transferring sophisticated information as a result of experience, knowledge and expertise enables MNCs to have a competitive advantage over domestic firms (Rusike, 2007).

2.2.4: The Eclectic Theory

The eclectic theory builds on the internationalization theory by adding two independent variables in explaining FDI by MNCs and these are firm-specific advantages and location advantages.

According to Dunning (2000), this theory was first developed in 1977 and proposes that FDI by MNCs can be explained by the interaction of these three independent variables that provide a framework for explaining the determinants of FDI by MNCs. The internalization theory variable explains how MNCs choose to enter other markets. The more efficient internal processes, the more likely firms will expand internally across borders where localization factors are attractive through FDI (Dunning, 2000).

The ownership advantages variable explains how firm-specific strengths - like management expertise or superior technology provide MNCs with a competitive advantage over domestic firms which influences their decision to undertake FDI. Dunning opines that the higher the ownership advantages of MNCs, the higher the likelihood of them undertaking FDI. The location characteristics of different host countries influence the level of FDI they receive. Location factors, such as abundant natural resources and the size of the local market, are important determinants of FDI (Rusike, 2007). According to Dunning (2000), the more such factors can be combined with ownership advantages of the investing MNC, the more likely the MNC will consider investing in the foreign country.

For example, inward FDI in Kenya's mining sector by Chinese firms could be influenced by location factors in terms abundance of minerals in the country combined with ownership advantages in terms superior technology in mining techniques and internalization factors such as tariffs.

2.3: Contribution of FDI to Skills Development and Job Creation

Mwilima (2003) identifies two main conduits for FDI. The first is Greenfield FDI which can be defined as an investment in a new business also called a "mortar and brick" investment. The second conduit for FDI is through mergers and acquisitions. Kim (2009)

noted that these two types of investment have different contributions on economic growth. The main reason for attracting inward FDI is that FDI will contribute positively to economic growth through increased foreign capital, access to superior technology and increased competitiveness (Adams, 2009).

Developing countries particularly see inward FDI as a source of capital for new investments that will create jobs and increase economic growth (Aseidu, 2002; Mwilima, 2003). The Kenyan government is also of the opinion that inward FDI will lead to economic growth (ROK, 2010). This study will determine whether investment by FDIs lead to development of relevant skills and job creation in Kenya.

Fedderke and Romm (2006), in their empirical study on the growth contribution of inward FDI in Kenya, found that FDI contributes positively to economic growth. Lim (2001) argues that while there is significant support that benefits do arise out of inward FDI in terms of positive spillovers, there is no evidence of a direct causal relationship between FDI and economic growth. Different types of inward FDI will have a varying contribution on economic growth. Bezuidenhout (2009) argues that inward FDI will contribute to economic growth only in cases where the FDI inflows are invested in an efficient and sustainable way. This argument is supported by Reiter and Steensma (2010) who note that inward FDI must be channeled strategically in the right sectors through a discriminative FDI policy that will align inward FDI flows with the economic development goals of the host country.

FDI in Kenya has been mainly capital intensive and therefore its contribution on job creation for example, may not be significant (Mwilima, 2003). In addition, the extent of the contribution of inward FDI will depend on the environment of the host country (Rusike, 2007). The factors that influence the magnitude of the contribution of inward FDI include the level of human capital, the technological gap and investment climate of the host country (Lim, 2001). Lim maintains that the higher the level of human capital, the higher the contribution of inward FDI to economic growth (Lim, 2001). This implies that a certain level of skills is required for a host economy to fully absorb the benefits of inward FDI. Lim (2001) asserts that studies have shown that the smaller the technological gap between the MNC and the host economy, the higher the benefits of efficiency spillovers as is the case with Italian firms. On the contrary, other

studies have shown that inward FDI does not necessary contribute to economic growth. According to Wijeweera, Villano and Dollery (2010), there is no empirical evidence to support the theory that there is a positive relationship between FDI and gross domestic product.

Further evidence comes from a study of 28 developing countries which found no evidence in the majority of countries studied of the contribution of inward FDI to economic growth in both the short- and the long-term (Herzer, Klasen & Nowak-Lehmann, 2008).

The research by Herzer et al (2008) goes on to state that there is no clear relationship between the growth contribution of inward FDI and the level of per capita income, level of education, openness of the local economy and the degree of sophistication of financial markets in developing countries (Herzer et al, 2008). Mwilima (2003) cites an example of Namibia where inward FDI investments in the mining sector led to a loss of 9 000 jobs over 12 years. Lim (2001) as well as Adams (2009) point out that, in the short term, inward FDI has negative effects due to the crowding out of domestic firms as a result of increased competition from MNCs. The literature that supports the positive relationship between inward FDI and economic growth appears to outweigh the research that suggests the opposite. The empirical studies that have been carried out have proven that a positive correlation exists between inward FDI and economic growth of the host country (Lim, 2001).

Inward FDI, especially Greenfield investment, leads to an increase in the foreign capital of the host country which, in turn, may fund an increase in a country's productivity and output through more efficient use of resources (Sekkat & Veganzones-Varoudakis, 2007).

In their study of FDI in South Africa and its contribution on national output, Moolman et al (2006) conclude that there is a positive relationship between inward FDI and economic growth. It is therefore important for developing countries to create policies that attract inward FDI. However, to realize the full positive contribution of inward FDI, they must provide the right environment in terms of the availability of suitable skills and a conducive investment climate.

Although the government of Kenya has over the years has strived to create an environment that attracts foreign direct investment, the contribution of FDIs on job creation and skills development has not been full examined. This study therefore seeks to determine the contribution of these direct investments by MNCs on skills development and job creation in Kenya.

The type of mechanism that is used for inward FDI also has a bearing on the extent of the benefits a host country will receive from the investment. Mwilima (2003) argues that inward FDI in the form of mergers and acquisitions is less likely to be beneficial to the host country compared to Greenfield investment. For example, mergers and acquisitions are less likely to lead to job creation opportunities than Greenfield investment. Instead, layoffs are more likely to happen (Mwilima, 2003).

In his study of cross-border mergers and acquisitions vs. greenfield FDI in South Korea, Kim (2009) found that Greenfield investments are more beneficial to the host country in terms of capital formation and welfare benefits. Kim notes that the main result (a potential disadvantage) of cross-border mergers and acquisitions is that income earned in the host country will be transferred out to the MNC's head office operation. This study will determine whether MNCs in Kenya plough back their income to promote job creation and skill development.

The extent to which the host country is receptive to inward FDI is another determinant of the extent of FDI benefits that occur in the local economy. The receptiveness is, in turn, influenced by the determinants of the inward FDI as noted above. For example, the level of human capital has a bearing on the absorptive capacity of the local economy of new technologies being introduced by MNCs (Lim, 2001). Many developing countries create incentive policies to attract FDI from the belief that inward FDI will lead to economic growth (Rusike 2007). Economic growth is achieved through the realization of benefits as a result of the foreign investment.

According to Hamida and Gugler (2009); Kugler (2006) and Noorbakhsh, Paloni and Youssef (2001), the benefits that are expected by host countries when MNCs enter the domestic market include: technological spillovers and skills transfer through training from the adoption of superior technology ;benefits to domestic suppliers from knowledge transfer and increased productivity :creation of jobs as MNCs establish new companies in host

economy ; access to foreign markets through affiliates of MNCs. The type of inward FDI a country receives also determines the benefits that a host country is expected to receive. According to Beugelsdijk et al (2008), horizontal inward FDI and vertical inward FDI have different contributions on economic growth, with horizontal FDI having a bigger contribution in host countries.

2.3.1: Skills Development and Knowledge Transfer Benefits

The entry of MNCs into a local economy is expected to bring about knowledge diffusion to domestic firms and domestic suppliers. Todo et al (2009) identify four channels through which knowledge transfer can take place in the host country and these include: firstly, through technical training of local employees by MNCs; secondly, through employee mobility by skilled MNC employees joining domestic firms; the third channel is through backward linkages to domestic suppliers who are set up and trained by the MNC to supply it with reliable quality products and, lastly, through research and development activities in the host country by MNCs.

2.3.2: Skills Development through Technical Training

Technological spillovers that result from the adoption of new, more efficient technology that has been introduced by an MNC have a linkage to knowledge transfer benefits. Employees of domestic firms adopting such technology need technical training in order to be able to operate the new technology. Fedderke and Romm (2006) argue that technological spillovers and skills transfer are now critical as Kenya has moved from being a factor-driven economy to an efficiency-driven economy.

Multinationals are important vehicles of technology and skills, management methods, and training which serve as powerful forces for economic growth and development in host countries.

Investment made by multinationals in developing countries can lead to the transfer of best practices, marketing skills, and knowledge to local firms. In turn, best practices, knowledge, and technology transfers can lead to quality and productivity growths, as well as to other positive externalities (Graham 1996). FDI is associated with the host country's economic growth activities in different ways:

First, foreign firms bring their best technologies, management techniques, and marketing expertise to the local market, and can affect economic growth in a favorable way. Second, because foreign firms want to maximize their profits by competing and trying to outperform local or international rivals, they also increase competition in the host country. This increased competition is often accompanied by the so-called 'spillover effect' in the manufacturing industries.

Multinational enterprises may improve the productivity of local firms when providing technical and training assistance to improve a supplier's product quality and other requirements (Smarzynska 2002). The transfer of knowledge or technology (Caves 1974) and the training of labor (Buckley and Casson 1976) increases manufacturing productivity. Foreign firms also help increase the productivity and product quality of local suppliers, and consequently provide better use of economies of scale for domestic firms (Ozawa 2000). Ozawa (2000) states also that multinationals bring knowledge and technology skills, which serve as powerful forces for economic development and social upgrading, and that countries can mutually benefit from interactions with each other in terms of trade and investment opportunities.

The presence of multinational enterprises does not automatically guarantee positive spillover effects. In a study of 88 multinational subsidiaries spread across six countries, Lall (1977) found that FDI had a negative contribution in one-third of the cases, while two-thirds of the cases experienced a positive contribution. Some empirical studies at industry level have found positive associations between foreign presence and sectoral productivity (Caves 1974; Globelman 1979; Blomstrom 1983; Blomstrom and Wolf 1994). Haddad and Harrison (1993) in Morocco, and Aitken and Harrison (1999) in Venezuela have not found a positive correlation between foreign presence and productivity of local firms based on firm-level panel data. A study by Smarzyka (2003) found a positive correlation between productivity spillovers and vertical linkages in transition economies.

Whether or not any particular foreign investment will be beneficial or detrimental to the host country depends on several host country characteristics, such as: investment climate, technological and overall economic factors, infrastructure and cultural differences, and absorptive capacity (Blomstrom 1989; Blomstrom and Kokko 1998).

Cohen and Levinthal (1989) and Burger (1999) emphasize that firms that invest in training and technology will obtain additional learning over time as they achieve comparative advantages in external knowledge exploitation capabilities.

In light of these conflicting studies, the question stills remains as to what extent multinational enterprises' activities in the countries of SSA have affected economic growth and value-added activities. This research explores these issues by studying the contribution of foreign direct investment, trade, and absorptive capacity on economic and manufacturing value-added growth activities on the host economies. The study assumes that spillover effects are directly or indirectly reflected in GDP growth, as well as in manufacturing value-added activities.

Multinational enterprises (MNEs) have played an important role in the transmission of capital, technology and knowledge, manufacturing strategies and value systems, and especially in the development of emerging economies. The literature on foreign direct investment studies shows strong evidence of spillover benefits that accrue to host countries (Blomstrom (1989) for Mexico, Caves (1974) for Australia, Globerman (1979) for Canada, Mansfield and Romeo (1980) for the United States, Liu (2002) for China, and Sinani and Meyer (2004) for Estonia). These studies have concluded that FDI increases domestic productivity levels, and that FDI enables the transfer of technology know-how, managerial knowledge, and marketing skills. However, other scholars have argued that FDI creates distortions in the domestic market, and that effects of spillovers are not automatic, but are affected by economic and technological as well as sociological factors (Kokko 1996).

While some empirical studies on developing countries show negative spillover effects (Aitkin and Harrison 1999) on Venezuela, Kathuria (2000) on India, Konings (2001) on Bulgaria and Romania), other studies have found insignificant spillover benefits: Haddad and Harrison (1993) on Morocco, Djankov and Hoekman (2000) on Czech Enterprises and Kluger (2001) on Columbia.

In light of these conflicting studies, an empirical study of contribution of FDIs to skill development and job creation in Kenya would be a valuable contribution to knowledge about FDI spillover and its particular contribution on host economies. This study is of special importance because the contribution of FDI to skills development and

job creation in Kenya as a whole is still under-researched in the international business arena. Published empirical studies on spillover effects on growth and value-added activities that focus exclusively on Kenya are almost non-existent.

Therefore, the study of the contribution of foreign direct investment to skills development and job creation is an important contribution to the international business and industrial.

2.3.3: Knowledge Transfer through Employee Mobility

Knowledge workers employed by MNCs can transfer their expert skills by joining domestic firms (Crespo and Fontoura, 2007). In their study in China, (Todo et al, 2009) found that employee mobility by engineers and managers between MNCs and domestic firms provide evidence of knowledge spillovers. Domestic low-technology firms are expected to gain higher knowledge spillover effects where worker mobility provides an opportunity for domestic firms to hire skilled employees from high-technology MNCs (Hamida & Gugler, 2009).

2.3.4: Knowledge Transfer to Domestic Suppliers

The spillovers from backward linkages to domestic suppliers' complements knowledge transfer. MNCs that assist domestic suppliers to set up production facilities will also facilitate the training of those suppliers to satisfy the supply requirements of the MNCs. According to Lim (2001), interactions between MNCs and domestic suppliers can result in efficiency and productivity increases for domestic firms.

2.3.5: Knowledge Transfer through Research and Development

Activities by MNCs Research and development interactions between MNCs and domestic firms can lead to knowledge transfer to domestic firms. Domestic firms can learn from the research and development activities of MNCs and thereby improve upon their own research (Branstetter, 2006).

2.3.6: Job Creation Benefits

Due to high unemployment rates, one of the major reasons for attracting inward FDI in developing countries is the belief that FDI will create jobs. Inward FDI can contribute to job creation in the host country when MNCs assist domestic suppliers to set up new production facilities and through former skilled MNC employees who

establish their own businesses. Many countries view inward FDI as an important mechanism to improve the local labour market conditions in terms of employment (Dinga & Munich, 2010).

The mechanism that is used for inward FDI and the type of FDI that is received by a country will have a varying contribution on job creation for the domestic economy. For example, inward FDI that comes in the form of a cross-border merger and acquisition is likely to have less contribution on the local labour market compared to Greenfield investments (Mwilima, 2003). The effect of Greenfield investments on job creation is direct as new firms will require labour to operate (Branstetter, 2006). This is consistent with Kim (2009) findings in his study on South Korea where he measured the correlation between the two modes of inward FDI to capital formation and employment creation. According to Kim's findings, Greenfield investment was positively correlated to employment compared with cross-border mergers and acquisitions which were negatively correlated to employment. In addition, different sectors will have a varying contribution on job creation spillovers. Inward FDI in the financial services sector may not yield any job creation opportunities in comparison with, for example, the clothing and textile sector which may create hundreds of low-skilled jobs.

According to Reiter and Steensma (2010), the FDI policy of developing countries also has a role in shaping the contribution of FDI on human development. They argue that FDI policy can help channel inward FDI into sectors that will have a positive contribution on human development in line with a government's human development goals like job creation and skills development, for example.

2.3.7: Technology Benefits

MNCs may invest in the local economy from the belief that they have a competitive edge over domestic firms stemming from superior technology. This more advanced, efficient technology is expected to spill over to local competitors, suppliers and customers. Benefits from technology spillovers can come from three sources: technical experts employed by an MNC could resign to take up employment in domestic firms;

MNCs could provide technical assistance to suppliers and customers, and domestic firms could copy technologies and management practices used by MNCs (Sadik & Bolbol, 2001).

Lim (2001) notes that improvement in the technology of domestic firms as a result of inward FDI could result in increased productivity. A domestic firm could copy technology that is used by MNC affiliates and thereby increase its productivity. Lim provides examples of where North American firms have set up operations in Asia and upgraded their Asian subsidiaries with the latest Technology, resulting in increased output. Increased competition from MNCs entering the market can also force domestic firms to invest in new technology in order to retain their existing market share (Kugler, 2006). Empirical research shows that Kenya has received positive technology spillovers from inward FDI (Fedderke & Romm, 2006).

2.3.8: Productivity Benefits to Domestic Suppliers

The entry of MNCs into the local market can have positive spillovers that could act as a catalyst for the creation of a new domestic supplier base or the expansion of existing suppliers. In his research, Lim (2001) cites three ways in which domestic suppliers can benefit from MNCs: an MNC can help potential suppliers set up production facilities; MNCs can improve the efficiency of domestic suppliers by demanding quality products with reliable on-time deliveries; and, finally, an MNC can provide training and facilitate adoption of best practice in terms of management and organization. Lim cites Mexico, where, as a result of General Motors and other MNCs moving to Mexico to establish production facilities, 310 domestic suppliers were established within a period of five years.

Kugler (2006) supports this argument by stating that backward linkages will be generated by the entry of MNCs in the local economy due to increased demand for input products.

2.4: Conceptual Framework

The relationship between the study variables was as shown on the conceptual framework represented by figure 2.1.

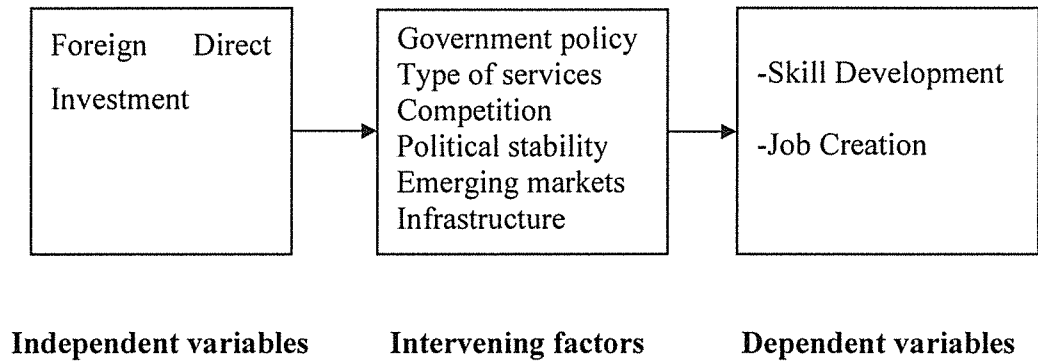


Figure 2.1: Conceptual Framework

2.5: Summary of Reviewed Literature

Multinational Companies enter markets in developing countries to make a profit and how they achieve this goal may be in conflict with the economic development goals of the host country. FDI policy in developing countries, therefore, has an important role to play to ensure that the benefits expected from inward FDI can be realized. Reiter and Steensma (2010) cite the case of China and India as examples of countries that have directed inward FDI into sectors perceived as crucial for skills development and job creation. The benefits of inward FDI when combined are expected to lead to skills development and job creation (Moolman et al, 2006), although some studies carried out for developing countries have found that inward FDI has little or no contribution on skills development and job creation. There is a wide gap in knowledge regarding this aspect in Kenya. The extent to which the benefits of FDI are realized not only depends on the type of inward FDI but also on the receptiveness of the host economy in terms of skills levels and the technology gap. The impetus to conduct this study lies on the overarching importance of FDI in skills development and job creation and the paucity of information that reflects the Kenyan context of the Contribution of FDI to skills development and job creation.

CHAPTER 3: RESEARCH METHODOLOGY

3.1: Introduction

This chapter outlined the methodology that was used in the study. The chapter covered the research design, the target population, sampling procedures and sample size, research instruments, validity and reliability of the instruments, pilot study, data collection procedures, and data analysis.

3.2: Research Design

The study utilized the inferential survey research design for the first objective and a descriptive survey for all the three objectives. The inferential survey is chosen because it allows researchers to study phenomena from samples of larger populations and be able to come with conclusions based on the data collected from the samples. The researcher collected information on the state of affairs based on past events regarding the contribution of foreign direct investment to skills development and job creation without manipulating any variables making the design appropriate for the study.

3.3: Location of the Study

The study was carried out in multinational companies in Nairobi County. Singleton (1993) notes that an ideal reason for the setting for any study should be the existence of a problem that the study hopes to generate solutions for. The study location was chosen because Nairobi is the commercial hub and the capital city of Kenya and as such most of the multi-national companies are located here.

3.4: Target Population

The target population was employees in the 68 multinational companies in Kenya as guided by the United Nations Conference on Trade and Development (UNCTAD) investment guide for Kenya 2012. In this case, the main respondents were the administration employees in the MNC's as they would be best place to advise on the specific areas of the study where the unit of analysis was at least one respondent per company.

3.5: Sampling Procedures and Sample Size

Orodho (2001) defines a sample as a part of large population, which is thought to be representative of the larger population. Sampling is a process of selecting a number of individuals or objects from a population such that the selected group contains elements representatives of characteristics found in the entire group (Orodho, 2001). Non-random convenience sampling was used to identify the sample for the survey since the UNACTAD investment guide report for Kenya 2012 provided a list of multinational companies to be used in the study. This list of the MNCs was used as a sampling frame. From the list non-random and using the census approach, convenience sampling of 43 respondents who were not contacted during the pilot study was done to select the companies that participated in the survey. The sample size was therefore 43 possible respondents.

3.6: Research Instruments

Questionnaires were used for data collection in this study. The questionnaire were used for data collection because as Kiess and Bloomquist (1985) observe, questionnaires offer considerable advantage in administration; presents an even stimulus potentiality to large numbers of people simultaneously and provides the investigation with an easy accumulation of data. Gay (1992) maintains that questionnaires give respondents freedom to express their views or opinion and also to make suggestions. A questionnaire is a structured set of written questions which are generally answered in the absence of or, at least, not under the direct scrutiny of the person who is collecting the information (Ellington, 1996). Such questionnaires are usually completed on an anonymous basis, thus further increasing the freedom of the respondents to be honest and frank in their replies. It's on the basis of these strengths that the questionnaires have been chosen.

Borg and Gall (1983) emphasize that whereas the open ended type of questions give informants freedom of response, the closed ended types facilitate consistency of certain data across informants. The questionnaire contained both open and closed ended items. The questionnaires were organized into five sections. Section A of the questionnaires contained items that sought to gather demographic information of respondents.

Section B sought information regarding the contribution of FDIs to skill development while section C sought to find out information on the contribution of FDIs to job creation while section D was to establish challenges faced in promoting FDI in Kenya. Section D sought to establish strategies that can effectively be packaged to promote FDI in order to offer.

The researcher designed questionnaires with items from the domain of indicators that measure the level of skills development, contributing to job creation, challenges faced in promoting FDI in Kenya and the strategies that can effectively be packaged to promote FDI. The scored items in the instrument were then divided into two groups. The subjects' total score from the two groups of items will be computed and collated.

3.7: Validity and Reliability

The research questionnaires were piloted in twenty five multinational companies in Nairobi County which were not used in the main study. According to Teijlingen and Hundley (2001), conducting a pilot study might give advance warning about where the main research project could fail, where the research protocols may not be followed, or whether proposed methods or instruments are appropriate or too complicated. The questionnaires were refined by removing any questions that provided unwanted or irrelevant information. The researcher also rewrote questions viewed as ambiguous and redesigned the questions that were not precise enough to achieve the objectives of the study.

The study tried to avoid errors arising from inaccurate coding; ambiguous instructions to the interviewee; interviewee and interviewer fatigue; and interview basis in as much as possible. To test the extent to which the data collect is reliable, the study used the Crobach coefficient of Alpha.

3.8: Data Collection Procedures

The purpose of the research was explained thoroughly to the participants. The consent of the respondents was sought before they are engaged in the study. Those involved in the study were assured of the confidentiality of the information they gave. The researcher visited the multinational companies introduced himself and explained the purpose of the study.

The researcher booked appointments with the participants. After that, the researcher personally administered the instruments to all respondents. Each participant personally filled their questionnaire.

3.9: Data Analysis

To establish whether there was a significant relationship between FDI and job creation the research used the Vector Error Correction Model (VECM) as used by Ho and Huang (2009) in a similar study. The VECM is of the form

$$y_t = \alpha_1 + \alpha_2 x_t \quad (3.1)$$

$$x_t = \beta_1 + \beta_2 y_t \quad (3.2)$$

Where

y_t is FDI for year t and x_t is Job creation for year t

and α_1 and α_2 are the constant and FDI intercept

while β_1 and β_2 are the constant and Job creation intercept.

The above model was used on consolidated macro-economic data spanning from 1979 to 2008 for FDI inflows and Employment.

To determine whether FDI by multi-national companies has contributed to job creation in Kenya and the contribution of FDI to skills development in selected multi-national companies in Kenya the research used a descriptive survey design. The descriptive survey design was chosen because it enabled the researcher to investigate the contribution of FDI to skills development and job creation based on feedback got from the respondents who had the information sought after by the study.

CHAPTER 4: PRESENTATION OF RESEARCH FINDINGS

4.1: Introduction

This chapter presents data analysis, interpretation and presentation. The main theme of the study was to investigate the contribution of foreign direct investment (FDI) on skills development and job creation in selected multi-national companies in Kenya. The data presented is therefore based on the study specific objectives which were to; to establish whether there is a significant relationship between FDI and job creation, to determine whether FDI by multi-national companies has contributed to creation in employment in Kenya and to determine the contribution of FDI to skills development in selected multi-national companies in Kenya. Other areas presented are on challenges faced in promoting FDI in Kenya.

Table 4.1 FDI in Flows in Ksh Millions

Year	FDI inflows in Ksh Millions	Year	FDI inflows in Ksh Millions	Year	FDI inflows in Ksh Millions
1979	7,760.00	1989	6,020.00	1999	2,520.00
1980	7,840.00	1990	5,700.00	2000	11,620.00
1981	1,916.00	1991	11,705.00	2001	460.00
1982	2,434.00	1992	11,413.00	2002	2,000.00
1983	2,400.00	1993	22,556.20	2003	8,020.00
1984	2,874.20	1994	20,328.20	2004	3,920.00
1985	3,376.40	1995	16,489.80	2005	740.00
1986	3,870.00	1996	12,609.60	2006	1,880.00
1987	2,440.00	1997	5,500.00	2007	72,180.00
1988	-	1998	1,700.00	2008	4,780.00

Source: Central Bank of Kenya Annual Reports 1979 to 1988

Table 4.2 Number of Jobs in Thousands

Year	Number of Jobs in Thousands	Year	Number of Jobs in Thousands	Year	Number of Jobs in Thousands
1979	1,100.00	1989	2,018.00	1999	5,477.50
1980	1,190.80	1990	2,395.00	2000	5,911.60
1981	1,243.70	1991	2,557.10	2001	6,366.90
1982	1,208.90	1992	2,753.20	2002	6,851.60
1983	1,339.40	1993	2,997.60	2003	7,325.70
1984	1,344.90	1994	3,355.10	2004	7,800.10
1985	1,423.40	1995	3,858.60	2005	8,505.00
1986	1,536.90	1996	4,313.80	2006	8,993.00
1987	1,634.00	1997	4,698.40	2007	9,479.00
1988	1,845.00	1998	5,083.20	2008	9,946.00

Source: Economic Surveys of Kenya 1979 to 1988

For the first objective which was to establish whether there is a significant relationship between FDI and job creation the Augmented Dickey Fuller (ADF) test was used. The ADF test that checks for stationarity in panel data the results where as illustrated on table 4.3

The model explains 53.2% of the changes in FDI within the first year of investment. It also points out that, only Job creation in the prior two years was significant in explaining the changes of FDI in the present year at 90 % significance level.

Additionally, for every 1% change in Job creation in the prior two years this causes FDI to change by 66793.85 %

Table 4.3: Results of Equation 3.2 where y is the FDI in year t

	Coefficient	Std. Error	t-Statistic	Prob.
Job Creation in year t-2	66793.85	33697.48	1.98 2162	0.0537
R-squared	0.532241			

FDI in the prior year is significant in explaining the changes in job creation in the current year at 95 % significance level.

For every 1% change in FDI, job creation decreases by -0.000009%

The model has an R^2 of 77.2067 % meaning 77.2067 % of the changes in FDI are explained by the model.

Table 4.4: Results of Equation 3.2 where y is the Job creation in year t

	Coefficient	Std. Error	t-Statistic	Prob.
Error Correction Term	8.32E-06	3.74E-06	2.223687	0.0314
FDI in year t-1	-9.17E-06	4.35E-06	-2.105371	0.0410
Constant	271113.6	102798.4	2.637333	0.0115
R-squared	0.772067			

4.2: Composition of the respondents

Table 4.5: Description on the type of investment undertaken by the respondent's company

Category	Frequency	Percentage
Manufacturing	15	47
Banking	10	31
Services	4	13
Petroleum	3	9
Total	32	100

The study sought to know the description on the type of investment undertaken by the respondent's company. On this question, majority of the respondents as shown by the table 4.5 indicated 47% manufacturing, 31% said banking, while 13% said services and 3 % petroleum respectively.

The study was to establish the respondent's current position in the multinational company. It was established that most of the respondents were tax consultants, chief distribution officers, loan officers, legal officers, field operations manager, FMG managers, auditors, finance officers, public relations officers as well as procurement officers. This implies that the data collected contained divergent views from various departments within the Multinational companies who have invested in Kenya and hence no bias

4.3: Contribution of Foreign Direct Investment to Skills Development

Table 4.6: Whether the Company have Formal Training Programme

	Frequency	Percentage
Yes	27	84
No	5	16
Total	32	100

This research study sought to establish whether the companies had formal training programmes. According to the data findings, 84% of the respondents indicated that there were formal training programmes in the organizations they worked for while 16% claimed that there were no formal training programmes in the companies they worked for respectively.

Table 4.7 presents the results on staff targeted for training within the organization. According to the results, it is evident that 78% of the respondents indicated that all employees in the MNCs are targeted for training. Other respondents as shown by 16% said middle level employees while 6% of the respondents said senior management staff.

Table 4.7: Staff Targeted for Training within the Organization

Category	Frequency	Percentage
All employees	25	78
Middle level management staff	5	16
Senior management staff	2	6
Total	32	100

Respondents were required by the study to indicate whether they had received any in job training. On this question and based on the results in the table above, majority of the respondents as shown by 88% indicated that they had received any in job training whereas the rest as shown by 12% claimed not to have received an in job training.

Table 4.8: Whether respondent had received any in Job Training

	Frequency	Percentage
Yes	28	88
No	4	12
Total	32	100

The researcher required the respondents to indicate the number of skilled employees who have left the company to join other companies. According to the data analysed from the field, majority of the respondents as shown by 47% indicated that the number of skilled employees who have left the company to join other companies was between 11-20, 31% said 1-10 while 22% said more than 20 staff respectively.

Table 4.9: Number of skilled employees who have left the company to join other companies

	Frequency	Percentage
1-10 staff	10	31
11-20 staff	15	47
More than 20	7	22
Total	32	100

The study was to find out whether the company been involved in the establishment of domestic companies. According to the results displayed in the table above, majority of the respondents 53% indicated that the companies they worked for was never involved in the establishment of domestic companies while 47% said that the MNCs they worked for were involved in the establishment of domestic companies.

Table 4.10: Whether the company been involved in the establishment of domestic companies

	Frequency	Percentage
Yes	15	47
No	17	53
Total	32	100

The study required the respondents to indicate whether the company involved in research and development of new products, skills or technologies in Kenya. According to the data findings, majority of the respondents as shown by 72% indicated that their company was involved in research and development of new products, skills or technologies in Kenya while only 28% who indicated that their companies were not involved in research and development of new products, skills or technologies in Kenya. On the same question, most of the respondents commented that only some staff are involved in research where only general knowledge is taught.

Table 4.11: Whether the Company is involved in Research and Development of new Products, Skills or Technologies in Kenya

	Frequency	Percentage
Yes	23	72
No	9	28
Total	32	100

The researcher required the respondents to indicate the adequacy of FDI contribution to skills development by Multinational Companies in Kenya. According to the findings, majority of the respondents as shown by 59% said that FDI contribution to skills development by Multinational Companies in Kenya is adequate, 25% said inadequate, 9% said adequate while 7% were not sure whether the FDI contribution to skills development by Multinational Companies in Kenya was adequate.

Table 4.12: Adequacy of FDI contribution to skills development by Multinational Companies in Kenya

	Frequency	Percentage
Inadequate	8	25
Adequate	19	59
More than adequate	3	9
Not sure	2	7
Total	32	100

4.4: Contribution of Foreign Direct Investment to Job Creation

The table 4.13 presents the findings on average number of management level jobs have been created by this company as a result FDI by the company respondent works for. According to the results, 47% of the respondents indicated that the average number of management level jobs have been created by the company as a result FDI by the company respondent works for was between 5-10, 41% said less than 5 whereas 12% said more than 10 respectively. This is an indication that there were very few jobs created by the foreign companies as is evident from the results.

Table 4.13: Average number of management level jobs that have been created by this company as a result FDI by the company respondent works for

	Frequency	Percentage
Less than 5	13	41
5-10	15	47
More than 10	4	12
Total	32	100

The researcher sought to know the average number of non-management level jobs have been created by the company respondent works for as a result of investment. According to the study findings, 47% of the respondents indicated that the average number of non-management level jobs have been created by the company respondent works for as a result of investment was less than 50, 37% said between 50-100 while 16% said more than 200. The fact that only a few of the respondents claimed creation of more than 200 depicts that very few non-management level jobs have been created by the company has been created.

Table 4.14: Average number of non-management level jobs have been created by the company respondent works for as a result of investment

	Frequency	Percentage
Less than 50	15	47
50-100	12	37
More than 200	5	16
Total	32	100

Respondents were to indicate whether there were any jobs lost within company as a result of the investment by the company. On this question, majority of the respondents as shown by 84% said that there were no jobs lost within company as a result of the investment by the company while 16 % had the opinion that there were some jobs lost within company as a result of the investment by the company respectively as presented in figure 4.1

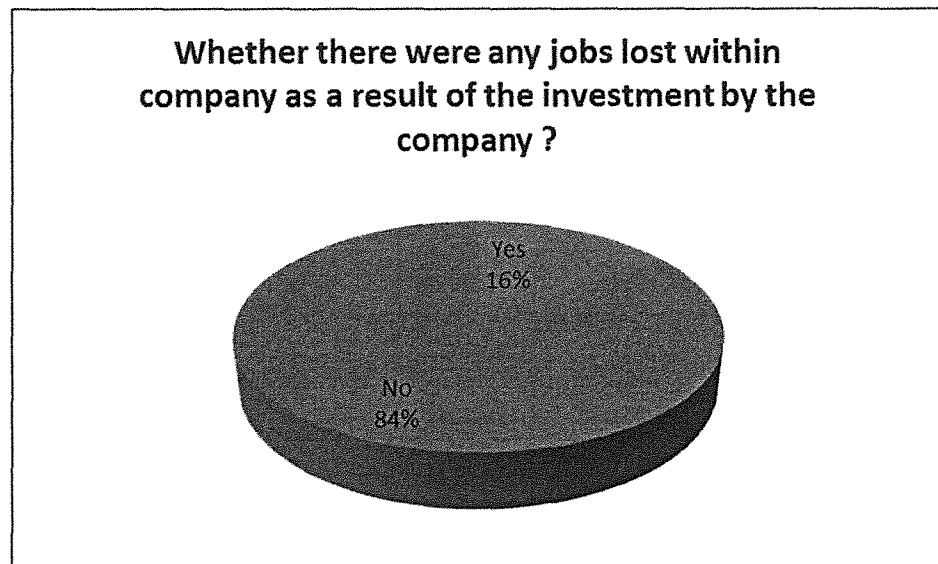


Figure 4.1 Whether there were any jobs lost within company as a result of the investment by the company

The figure 4.2 presents the findings with regard to number of employees that have left the company to start their own companies in the same industry. According to the results displayed, 63% of the respondents indicated the number of employees that have left the company to start their own companies in the same industry was less than 5, 25% said between 1-10 staff while 12% indicated that more than 10 employees that have left the company to start their own companies in the same industry.

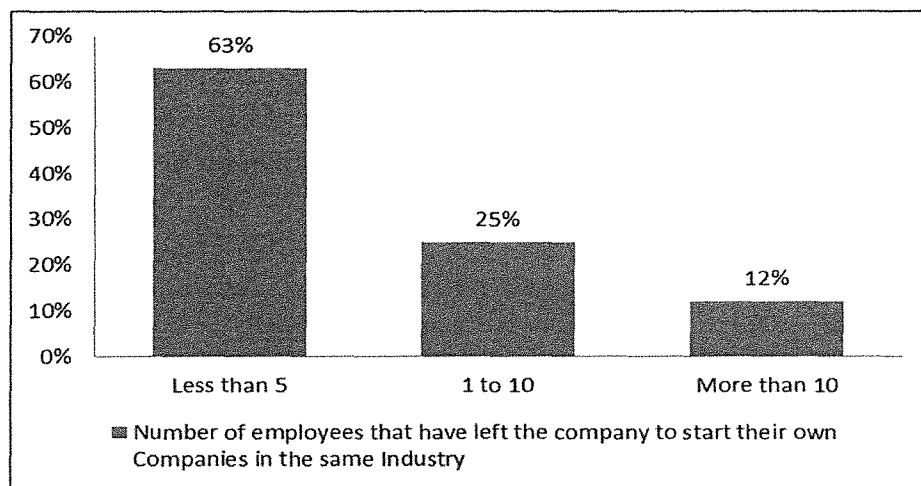


Figure 4.2: Number of employees that have left the company to start their own Companies in the same Industry

The table 4.17 depicts the data findings on respondents' level of agreement on the statement that Foreign Direct Investment by Multi-National companies has resulted in the creation of jobs in Kenya. According to the results, majority of the respondents as shown by 59% agreed that Foreign Direct Investment by Multi-National companies has resulted in the creation of jobs in Kenya, 16% neither agreed nor disagreed, 13% strongly agreed, 9% disagreed while 3% strongly disagreed that Foreign Direct Investment by Multi-National companies has resulted in the creation of jobs in Kenya.

Table 4.15: Respondents level of agreement on the statement that Foreign Direct Investment by Multi-National companies has resulted in the creation of jobs in Kenya

Extent of Agreement	Frequency	Percentage
Strongly agree	4	13
Agree	19	59
Neither agrees nor disagrees	5	16
Disagree	3	9
Strongly disagree	1	3
Total	32	100

4.5: Challenges Faced in Promoting FDI in Kenya

The study required the respondents to indicate their extent to which listed challenges affect Direct Investment by Foreign Multinational Companies. On this question majority of the respondents indicated that; High tariffs and quotas, Collapse of East African Community, Lack of Strategy, High taxation, Political instability, Local borrowing rights by MNCs restricted, Macro-economic constraints arising from collapse of IMF's SAPs, Licensing bureaucracy, Unfavourable investment climate and other Structural constraints and macro-economic imbalances to a great extent affect the Direct Investment by Foreign Multinational Companies as shown by 79%, 64%, 61%, 60%, 57%, 55%, 54%, 51%, 45% and 34% respectively.

Table 4.16: Extent to which listed challenges affect Direct Investment by Foreign Multinational Companies

Challenges	Very great extent	Great extent	No opinion	Small extent	No extent
High tariffs and quotas	15	79	2	2	2
Collapse of East African Community	18	64	17	1	0
Lack of Strategy	21	61	17	1	0
High taxation	29	60	10	1	0
Political instability	31	57	10	2	0
Local borrowing rights by MNCs restricted	30	55	10	3	2
Macro-economic constraints arising from collapse of IMF's SAPs	31	54	10	3	2
Licensing bureaucracy	40	51	8	1	0
Unfavourable investment climate	19	45	30	6	0
Structural constraints and macro-economic imbalances	22	34	39	4	1

4.6: Strategies for Promoting FDI in Kenya

The study required the respondents to indicate their level of agreement on listed strategies of promoting FDI in Kenya. According to the results displayed in the table above, majority of the respondents were in agreement that; establishment of free trade zones Development of FDI friendly policies, Improving internal security, Development of incentives to attract FDI, Improvement of infrastructure, Promoting political stability Lowering the tax base and improvement of business climate as shown by 80%, 79%, 66%, 55%, 51%, 46%, 41% and 35% respectively

Table 4.17: Respondents level of agreement on listed strategies of promoting FDI in Kenya

	Strongly agree	Agree	Fairly agree	Disagree	Strongly disagree
Establishment of free trade zones	12	80	3	3	2
Development of FDI friendly policies	15	79	2	2	2
Improving internal security	32	66	1	1	0
Development of incentives to attract FDI	33	55	12	0	0
Improvement of infrastructure	37	51	8	2	2
Promoting political stability	40	46	13	1	0
Lowering the tax base	32	41	26	1	0
Improvement of business climate	21	35	39	4	1

CHAPTER 5: DISCUSSIONS

5.1: Introduction

This chapter presents the summary of findings, conclusions and recommendations on the contribution of foreign direct investment (FDI) on skills development and job creation in selected multi-national companies in Kenya. The presentation has been organized on the basis of the research objectives set.

5.2: Summary of Research Objectives and Methods

The first objective which was to establish whether there is a significant relationship between FDI and job creation, inferential statistical measures and in particular the Vector Error Correction Model (VECM) was used. This was backed up by a descriptive survey in the form of questions administered through questionnaires. The specific questions are in section 2 of the questionnaire.

The second objective which was to determine the contribution of FDI to job creation and skills development in selected multi-national companies in Kenya, a descriptive survey in the form of questions administered through questionnaires. The specific questions are in section 3 of the questionnaire.

The third objective was to establish the challenges faced by multi-national companies in creating jobs and developing skills, a descriptive survey in the form of questions administered through questionnaires. The specific questions are in section 2 of the questionnaire. The specific questions are in section 4 of the questionnaire.

5.2.1: What is the Relationship between FDI and Job Creation in Kenya?

The research establishes that there is a significant relationship between FDI and job creation. The correlation analysis points out that the relationship can only be evaluated two years after the initial year of investment. This could be useful to potential investors whom may want to see quick results on their investment upon investing in the country.

In response to the question if there were any jobs lost as a result of MNC's investing in Kenya, majority of the respondents said that this was not the case. This is confirmed by the regression analysis that confirms a negligible negative correlation between FDI and job creation.

It is noteworthy to state that the proportion of skilled employees who leave their respective MNC's to go and start up their own firms is very small compared those remain in the MNC's after having improved their skills. This confirms the internalization theory where MNC's utilize their superior skills and technologies to maximize their returns without necessarily promoting the industry wide skills so to have a competitive edge over domestic firms.

The results of the questionnaires notes that a large portion of skilled employees leave the MNC's for other employment. This would in turn reduce the level of contribution by MNC's to job creation.

Although a large portion of the respondents said that MNC's are not involved in establishment of domestic companies, there is a significant portion that had a positive response to the question whether MNC's setup domestic companies. This contradicts the internalization theory where MNC's would what to take advantage of their superior internal processes to gain a competitive edge over domestic firms.

If fostered in better economic operating conditions together with better policies, the government can increase the proportion of MNC's establishing domestic firms to the benefit of only just the two parties but to the entire economy.

The study found out that 47% of the respondents indicated that the average number of management level jobs have been created by this company as a result FDI by the company respondent works for was between 5-10 jobs, an implication that there were very few jobs created by the foreign companies as is evident from the results.

The findings also indicated that 47% of the respondents indicated that the average number of non-management level jobs have been created by the company respondent works for as a result of investment was less than 50.

The study depicted that only a few of the respondents claimed creation of more than 200 depicting that very few non-management level jobs have been created by the company has been created.

The study found out that majority of the respondents as shown by 84% said that there were no jobs lost within company as a result of the investment by the company and that 63% of the respondents indicated the number of employees that have left the company to start their own companies in the same industry was less than 5. It was also found out that majority of the respondents as represented by 58% agreed that Foreign Direct Investment by Multi-National companies has resulted in the creation of jobs in Kenya.

5.2.2: The Contribution of FDI to Job Creation and Skills Development in Selected Multi-national Companies in Kenya.

Contrary to the theory of Internalization that MNCs are exposed to imperfect intermediate markets, factors of production, services, technology and marketing techniques which, in turn, make the cost of transferring information, bargaining and enforcement significantly high (Faeth, 2008), on average MNC's actively budget for training and despite the high cost, through their FDI projects MNC's conduct formal training programs and therefore consciously contribute to skills development. The survey from the study shows that majority of the employees in the MNC's are targeted for training. This is at least from the majority of the respondents but this may also be attributed by the fact that most were in the managerial level.

MNC's are involved in Research and Development (R&D) of new products, skills and technologies in Kenya. This is a positive contribution to the human capital base in the economy. This is a notable point since the spill over effects of the above not only help the MNC's operate more efficiently and responsively to the Kenyan market, but also help benchmark the standards of the domestic firms to a more international level.

The study found out that 84% of the respondents indicated that there were formal training programmes in the organizations they worked for and that all employees in the MNCs are targeted for training as represented by 78%.

Majority of the respondents as shown by 88% indicated that they had received any in job training and that the major skills taught were; financial management skills, human resource management skills, operational skills public management skills, marketing skills, research and development skills and advanced computer related skills which implied that the staff are well trained on a range of skills although general knowledge.

According to the findings, the study established that majority of the respondents as shown by 47% indicated that the average number of skilled employees who have left the company to join other companies was between 11 and 20. It was also found out that majority of the respondents 53% indicated that the companies they worked for was never involved in the establishment of domestic companies and that their company was involved in research and development of new products, skills or technologies in Kenya as shown by 72%. On the same question, most of the respondents commented that only some staff were involved in research where only general knowledge is taught. Finally, majority of the respondents as represented by 59% said that FDI contribution to skills development by Multinational Companies in Kenya is adequate.

5.2.3: Challenges Faced by Multi-national Companies in Creating Jobs and Developing Skills.

In the following descending order, the study found out that high tariffs and quotas, collapse of East African Community, high taxation, political instability, restricted local borrowing rights by MNC's, Macro-economic constraints arising from collapse of IMF's SAPs, licensing bureaucracy, unfavourable investment climate and other Structural constraints and macro-economic imbalances to a great extent affects the Direct Investment by Foreign Multinational Companies in Kenya.

5.2.4: Strategies for Promoting FDI in Kenya

Majority of the respondents were in agreement that; establishment of free trade zones development of FDI friendly policies, improving internal security, development of incentives to attract FDI, improvement of infrastructure, promoting political stability, lowering the tax base and improvement of business climate in the order of listing would go a long way in boosting the level of FDI in Kenya.

5.3: Conclusions

The research establishes that there is a significant relationship between FDI and job creation. Initial FDI projects should ideally be evaluated two years after the initial year of investment so that tangible results can be achieved. This could be useful to potential investors whom may want to see quick results on their investment upon investing in the country.

In terms of adequacy of Multi-National Companies' in contribution to skills development, the FDI activities carried out by MNC's significantly contribute to skills development in Kenya. Through the various training programs they hold in their respective areas of operation, the human capital base of Kenya is developed and benchmarked to the international standards.

Most of the challenges faced by Multi-National Companies in Kenya can be addressed by collaborative efforts between the government and other stakeholders involved in on boarding and regulation of the Multi-Nationals. Improving diplomatic ties with other countries can also go long way in bringing down unnecessary encumbrances that will make Kenya a more attractive investment destination.

5.4: Implication of Research Findings

This study recommends that the government of Kenya to review and revamp its policies for attracting and retaining FDI through MNC's with particular emphasis on the following areas: establishment of more free trade zones, development of FDI friendly policies, improving internal security, development of tax and fund repatriation incentives to attract FDI, improvement of infrastructure, promoting political stability, and improvement of business climate as strategies good enough to enhance the contribution of foreign direct investment (FDI) on skills development and job creation in Kenya.

The FDI enhancement agenda should be put at the forefront of the devolved county governments' development programmes as the spill over effects of MNC's investing within the respective counties would not only create jobs and develop skills but also enhance technological transfer, capital formation, improve of living standards of citizens while at the same be a valuable source of revenue for the governments.

The MNC's in the study seem to be split almost symmetrically as to whether or not to spend more in terms of investment in the Kenyan economy through establishment of local firms. This means that the drive to invest locally will still heavy weigh on the different policies of the MNC's and as whether more can be done to boost the amount of direct investment in host economies largely depends on the individual MNC's values and perception to diversification of their businesses.

FDI gives MNC's an opportunity to venture into new areas of operation with reduced barriers of entry into specific markets. The MNC's should take advantage of the Investment Promotional Incentives to boost their regional foot print and also venture into otherwise untapped markets. By working in close collaboration with the both the national and county governments as well as other market regulators, MNC's stand a great chance to boost their return on investment while still developing the Skill set of the local workforce they employ.

5.5: Limitations of Research

The findings of this research are opening and not definitive. This study covered selected multi-national companies in Nairobi as guided by the UNACTAD investment guide report for Kenya 2012. These were purposively selected based on acceptance to allow research to be conducted within their premises. Though other multi-national companies are equally important, this study did not cover MNC's out of Nairobi which is the Capital of Kenya and the main commercial hub in terms of business in Kenya. A wider geographical scope to include other MNC's operating outside the capital could have a different set of results in terms of the relationship between FDI and job creation and skills development.

5.6: Recommendation for Further Studies

Significant gains through the devolution of state functions to county governments have created avenues for the required frameworks to attract FDI in other commercially vibrant regions out of Nairobi. Future studies could focus on a wider geographic area once the MNC's have undertaken new established and have been operational long enough to allow feasible studies to be carried out. This study also recommends that further studies can be done where future researchers can investigate the contribution of FDI to job creation and skills development based on the different business sectors with the intent of finding out which sectors prosper most and the ones that provide untapped opportunities.

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APPENDIX A

QUESTIONNAIRE FOR STAFF IN MNCs

Section 1: General Information

Which of the following best describes the type of investment undertaken by the company you are working for?

- ☐ Manufacturing
- ☐ Banking
- ☐ Agriculture
- ☐ Tourism
- ☐ Building and construction
- ☐ Petroleum

In which sector are you working?

.....

What is your current position in this company?

.....

Section 2: Impact of Foreign Direct Investment to Skills Development

Does the company you are working for have formal training programme?

- ☐ Yes
- ☐ No

Who is targeted for training within your organization

- ☐ All employees
- ☐ Middle level management staff
- ☐ Senior management staff

Have you received any in job training?

- ☐ Yes

☐ No

If yes, describe the skills acquired from the training

.....
.....

How many skilled employees have left this company to join other companies?

- ☐ None
☐ 1-10
☐ 11-20
☐ More than 20
☐ Not sure

Has the company been involved in the establishment of domestic companies

- ☐ Yes
☐ No

Is the company involved in research and development of new products, skills or technologies in Kenya?

- ☐ Yes
☐ No

Do you have any comment on the contribution of Foreign Direct Investment by Multinational Companies on skills development in Kenya?

- ☐ Yes

☐ No

If yes, please specify

.....
.....
.....

How adequate is the contribution to skills development by Multinational Companies in Kenya?

☐ Inadequate

☐ Adequate

☐ More than adequate

☐ Not sure

Section 3: Contribution of Foreign Direct Investment to Job Creation

12. How many jobs have been created by this company over the given period of time?

Year	2008	2009	2010	2011	2012	2013
Jobs created						

13. How many management level jobs have been created by this company as a result FDI by the company you are working for?

☐ Less than 5

☐ 5-10

☐ More than 10

14. How many non-management level jobs have been created by the company you are working for as a result of investment by the company?

☐ Less than 50

☐ 50-100

☐ More than 200

15. Were any jobs lost within your company as a result of the investment by the company?

☐ Yes

☐ No

16. How many employees have left this company to start their own companies in the same industry?

☐ None

☐ 1-10

☐ 11-20

☐ More than 20

17. How much do you agree with the following statement: Foreign Direct Investment by Multi-National companies has resulted in the creation of jobs in Kenya?

☐ Strongly agree

☐ Agree

☐ Neither agrees nor disagrees

☐ Disagree

☐ Strongly disagree

18. Please address any other comments you have on the creation of jobs by Multinational National Companies in Kenya.

.....
.....

Section 4: Challenges Faced in Promoting FDI in Kenya

19. To what extent do the following affect direct investment by foreign multinational companies?

Challenges	Very great extent	Great extent	No opinion	Small extent	No extent
Licensing bureaucracy					
High taxation					
Political instability					
Unfavourable investment climate					
Local borrowing rights by MNCs restricted					
High tariffs and quotas					
Challenges	Very great extent	Great extent	No opinion	Small extent	No extent

Collapse of East African Community					
Structural constraints and macro-economic imbalances					
Macro-economic constraints arising from collapse of IMF's SAPs					
Lack of Strategy					
Any Other- Please specify					

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Section 5: Strategies for Promoting FDI in Kenya

20. To what extent do you agree with the following strategies in promoting FDI in Kenya? Tick appropriately

	Strongly agree	Agree	Fairly agree	Disagree	Strongly disagree
Establishment of free trade zones					
Improvement of business climate					
Improvement of infrastructure					
Development of incentives to attract FDI					
Development of FDI friendly policies					
Lowering the tax base					
Improving internal security					
Promoting political stability					